

CMP: ₹ 57

Target: ₹ 70 (22%)

Target Period: 12 months

October 23, 2022

BUY

On track performance; cost reduction is key...

About the stock: IDFC First Bank was formed by the merger of the erstwhile IDFC Bank and Capital First in 2018. Retailisation of its business has been the key focus.

- Retail funded assets form 66% of total funded assets
- Branch network is at 670 as on September 2022

Q2FY23 Results: IDFC First Bank reported a strong performance.

- GNPA down 18 bps QoQ to 3.18%; NNPA down 21 bps QoQ to 1.09%
- NII up 32.1% YoY, NIMs up 9 bps QoQ to 5.98%, C/I at ~73%
- Provisions down 10.7% YoY; PAT at ₹ 555.6 crore up 3.6x YoY
- Funded assets up 24% YoY at ₹ 1.45 lakh crore, retail grew 41% YoY

What should investors do? IDFC First Bank's stock price rose ~46% in the past six months as balance sheet strength improved. Healthy business growth, steady asset quality and gradual improvement in CI ratio should drive RoA; thus valuation

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value IDFC First Bank at ~1.8x FY24E ABV to arrive at revised target price of ₹ 70 per share.

Key triggers for future price performance:

- Focus on retail segment to drive business growth, margins along with granularity. Replacement of legacy borrowing with liabilities at competitive cost remains key
- Adequate provisions already in place to keep credit cost at ~1.5%. Thus, aiding earnings trajectory and, therefore, return ratios
- Gradual decline in CI ratio remains key to drive further re-rating in valuation. The management has guided CI ratio at ~65%

Alternate Stock Idea: Apart from IDFC First, in our coverage we also like CSB Bank.

- CSB Bank has shown a meaningful transformation in its overall performance in the past few years and currently focuses on gold and SME loans
- BUY with a target price of ₹ 275

Key Financial Summary

Key Financials	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	6,076	7,380	9,706	45%	11,994	14,344	22%
Net profit (₹ crore)	(2,864)	452	146	-	2,088	2,687	330%
EPS (₹)	(6.0)	0.8	0.2	-	3.4	4.3	
P/E (x)	NM	71.9	244.8		17.1	13.3	
ABV (₹)	30.2	28.1	30.8		35.1	38.3	
P/ABV (x)	1.9	2.0	1.9		1.6	1.5	
RoA (%)	(1.9)	0.3	0.1		1.0	1.2	
RoE (%)	(18.7)	2.7	0.8		9.5	11.1	

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹ 35648 crore
Networth	₹ 20411 crore
52 week H/L	58/ 29
Face value	₹ 10

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	36.5	36.5	36.5	36.5	36.5
FII	14.8	14.8	13.5	11.0	11.7
DII	10.2	10.4	9.6	10.2	11.6
Others	38.5	38.4	40.5	42.3	40.2

Price Chart



Risk to our call

- Net stressed assets declined to 1.3%, improvement of ~30 bps QoQ
- **Key Risk:** i) Slower improvement in CI ratio ii) Delay in liabilities accretion to impact anticipated cost benefit

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Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong operating performance; asset quality improved

- NII up 32.1% YoY and 9.1% QoQ to ₹ 3002 crore, driven by 15 bps YoY, 9 bps QoQ expansion in NIMs at 5.98% and strong business growth. Other income registered strong growth of 36.1% YoY and 24.0% QoQ. Fee Income growth was contributed mainly by the fees related to loan sourcing, higher transaction led fees, distribution and wealth management fees, etc. Operating expense (including staff cost) grew 23% YoY and 9% at ₹ 2895 crore mainly due to higher business volumes
- On a QoQ basis, provisions were increased by 37.7% QoQ at ₹ 424 crore (down 11% YoY). The credit cost remained steady sequentially. Thus, PAT grew 3.6x YoY and 17.1% QoQ at ₹ 555.6 crore
- Asset quality improved sequentially as GNPA and NNPA declined 18 bps and 21 bps QoQ to 3.18% and 1.09%, respectively. Retail GNPA declined from 2.12% to 2.03%, corporate segment GNPA declined from 3.67% to 3.43% QoQ. GNPA in infra segment increased from 21.74% to 24.48% QoQ
- Total funded assets were up 24% YoY and 5.6% QoQ to ₹ 1.45 lakh crore, wherein retail funded assets were up 41% YoY to ₹ 96496 crore. Customer deposit growth was at 26.3% YoY to ₹ 1.14 lakh crore. This was led by 37% YoY uptick in CASA. CASA ratio is now at 51.28% vs. 50.04% in Q1FY23 and 51.28% in Q2FY22

Q2FY23 Earnings Conference Call highlights

- Overall loan book to grow at ~20-25% on a sustainable basis, going ahead. Margins sustainable at ~6%. CASA ratio sustainable at 50-51% levels
- The management maintained credit cost guidance of 1.5% for FY23E. RoE will be in double digit at exit of FY23E
- SMA -2 book continued to decline further. Thus, NPA will be not be much, going ahead. Restructured book was at ~1% vs. 1.3% in Q1FY23
- During the quarter, SRs were sold to the tune of ₹ 200 crore. The bank used this amount to build excess provisions. The bank continues to maintain excess liquidity of 131%
- Added 19 branches during the quarter
- Repaid high cost borrowing of ₹ 7218 crore during October 2021-September 2022
- Share of infra book reduced to 4% vs. 22% before merger
- The bank has no immediate plans to raise capital and is comfortably capitalised to support future growth
- Total ~85% of customers have credit score of more than 700

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	132	155	Buy	279	8.0	9.0	12.0	14.6	17	14.7	11.0	9.1	1.8	1.6	1.5	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,142	1,350	Buy	885	36.7	59.5	91.3	107.0	31	19.2	12.5	10.7	2.1	1.9	1.7	1.5	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,902	2,250	Buy	3,778	35.1	43.0	48.8	57.0	54.1	44.2	39.0	33.4	6.2	5.3	4.7	4.1	12.4	12.6	12.5	12.9
CSB Bank (CSBBAN)	233	275	Buy	40	12.6	26.4	27.1	29.3	18.5	8.8	8.6	8.0	2.2	1.7	1.4	1.2	10.5	19.0	16.3	15.1
IDFC First (IDFBAN)	57	70	Buy	337	0.8	0.2	3.4	4.3	71.5	243.5	17.0	13.2	2.0	1.8	1.6	1.5	2.7	0.8	9.5	11.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	3,002	2,896	2,272	32.1	2,751	9.1	Driven by healthy loan growth and margin expansion
NIM (%)	5.98	6.10	5.83	15 bps	5.89	9 bps	Seen benefit of interest rate transmission
Other Income	1,061	975	780	36.1	856	24.0	Fee income grew 44% YoY
Net Total Income	4,064	3,871	3,052	33.1	3,607	12.7	
Staff cost	919	865	636	44.5	830	10.7	
Other Operating Expenses	1,976	1,939	1,724	14.7	1,833	7.8	Higher opex on account of increased business volumes
PPP	1,168.7	1,067.1	692.6	68.7	943.8	23.8	
Provision	424.2	399.5	474.9	-10.7	308.0	37.7	PCR increased to 83% vs 69% a year ago
PBT	744.5	667.6	217.6	242.1	635.8	17.1	
Tax	189.0	163.6	65.9	186.8	161.5	17.0	
PAT	555.6	504.0	151.7	266.1	474.3	17.1	Healthy top-line leads to strong earnings

Key Metrics							
GNPA	4,396.2	4,278.7	4,485.5	-2.0	4,354.8	1.0	
NNPA	1,480.0	1,604.5	2,150.3	-31.2	1,653.8	-10.5	
Funded Assets	1,45,362	1,42,685	1,17,270	24.0	1,37,663	5.6	Mainly driven by retail segment which was up 41% YoY
Deposits	1,14,004	1,10,087	90,235	26.3	1,02,868	10.8	CASA deposits grew by 37% YoY; CASA ratio up 124 bps QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	11,950	11,994	0.4	14,438	14,344	-0.7
Pre Provision Profit	4,456	4,330	-2.8	5,933	5,643	-4.9
NIM calculated (%)	6.0	6.1	6 bps	6.0	5.9	-9 bps
PAT	2,028	2,088	2.9	2,941	2,687	-8.6
ABV (₹)	34.3	35.1	0.8	39.0	38	2.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	17.5	17.2	19.7	19.8	19.7	18.9
Deposit Growth (%)	36.2	19.1	22.9	21.9	20.5	22.0
CASA ratio (%)	51.7	48.4	47.3	48.0	48.2	48.9
NIM Calculated (%)	5.1	5.8	6.1	5.9	6.0	6.0
Cost to income ratio (%)	74.0	74.6	72.6	70.0	71.8	68.6
GNPA (₹ crore)	4,303	4,469	4,469	4,807	6,585	4,656
NNPA (₹ crore)	1,883	1,808	1,259	1,697	1,688	1,442

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement						
	₹ crore					
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	11,948	16,308	15,968	17,173	21,155	25,094
Interest Expended	8,749	10,232	8,588	7,467	9,160	10,750
Net Interest Income	3,199	6,076	7,380	9,706	11,994	14,344
Growth (%)	62	90	21	32	24	20
Non Interest Income	852	1,722	2,211	3,222	3,832	4,459
Net Income	4,051	7,798	9,592	12,928	15,826	18,803
Employee cost	1,118	1,528	1,977	2,697	3,028	3,393
Other operating Exp.	2,169	4,333	5,116	6,948	8,468	9,768
Operating Income	764	1,937	2,498	3,284	4,330	5,643
Provisions	1,460	4,315	2,023	3,109	1,546	2,037
PBT	(696)	(2,379)	476	175	2,784	3,606
Exceptional items	2,599.3	-	-	-	-	1.0
Taxes	(1,351)	486	24	46	724	938
Net Profit	(1,944)	(2,864)	452	146	2,088	2,687
Growth (%)	(303)	47	NA	(68)	1,335	29
EPS (₹)	(4.1)	(6.0)	0.8	0.2	3.4	4.3

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of shares (crore)	478.2	481.0	567.6	621.8	621.8	621.8
EPS (₹)	(4.1)	(6.0)	0.8	0.2	3.4	4.3
DPS (₹)	0.5	-	-	0.0	0.3	0.4
BV (₹)	38.0	31.9	31.4	33.8	37.1	41.0
ABV (₹)	35.7	30.2	28.1	30.8	35.1	38.3
P/E	NA	NA	71.9	244.8	17.1	13.3
P/BV	1.5	1.8	1.8	1.7	1.5	1.4
P/ABV	1.6	1.9	2.0	1.9	1.6	1.5
Yields & Margins (%)						
Net Interest Margins	2.5	4.4	5.1	5.8	6.1	5.9
Yield on assets	9.3	11.8	11.5	11.1	11.9	12.1
Avg. cost on funds	6.8	8.2	7.0	5.0	5.4	5.5
Yield on average advances	11.5	16.6	9.6	9.7	14.2	14.2
Avg. Cost of Deposits	8.0	6.3	5.8	4.8	4.9	4.8
Quality and Efficiency (%)						
Cost to income ratio	145.3	75.2	74.0	74.6	72.6	70.0
Credit/Deposit ratio	122.5	131.5	113.4	111.6	108.7	106.7
GNPA	2.5	2.7	4.3	3.8	3.2	2.8
NNPA	1.3	0.9	1.9	1.5	0.9	1.0
ROE	(10.7)	(18.7)	2.7	0.8	9.5	11.1
ROA	(1.2)	(1.9)	0.3	0.1	1.0	1.2

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet						
	₹ crore					
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	4,782	4,810	5,676	6,218	6,218	6,218
Reserves and Surplus	13,377	10,533	12,132	14,770	16,880	19,298
Networth	18,159	15,343	17,808	20,987	23,098	25,516
Deposits	70,479	65,108	88,688	1,05,634	1,29,784	1,58,226
Borrowings	69,983	57,397	45,786	52,963	50,133	54,561
Other Liabilities & Provisions	8,562	11,353	10,861	10,581	11,529	12,568
Total	1,67,183	1,49,200	1,63,144	1,90,166	2,14,545	2,50,872
Application of Funds						
Fixed Assets	950	1,038	1,266	1,361	1,457	1,558
Investments	58,475	45,405	45,412	46,145	50,342	55,490
Advances	86,302	85,595	1,00,550	1,17,858	1,41,036	1,68,900
Other Assets	11,889	12,973	10,088	9,060	10,216	12,290
Cash with RBI & call money	9,567	4,190	5,828	15,758	11,494	12,634
Total	1,67,183	1,49,200	1,63,144	1,90,182	2,14,545	2,50,872

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios						
(% growth)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	32.3	(10.8)	9.3	16.6	12.8	16.9
Funded asset	65.4	(0.8)	17.5	17.2	19.7	19.8
Deposit	46.7	(7.6)	36.2	19.1	22.9	21.9
Total Income	25.3	40.9	0.8	12.2	22.5	18.3
Net interest income	62.2	89.9	21.5	31.5	23.6	19.6
Operating expenses	227.6	(0.4)	21.0	36.0	19.2	14.5
Operating profit	(241.7)	(205.6)	29.0	31.4	31.9	30.3
Net profit	(303.4)	47.4	NA	(67.8)	1,334.7	28.7
Net worth	18.9	(15.5)	16.1	17.9	10.1	10.5
EPS	(244.8)	46	NA	(71)	1,335	29

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

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